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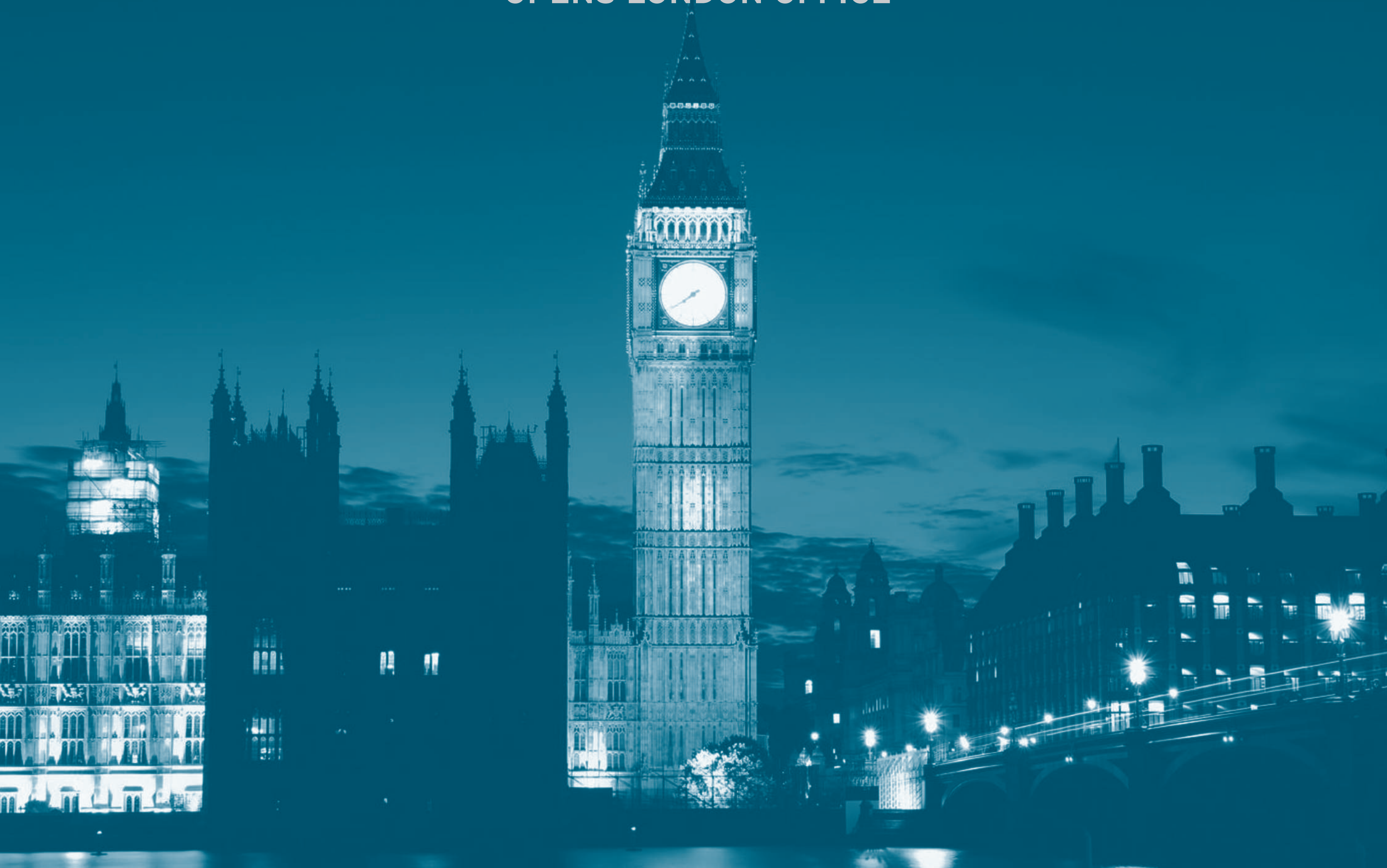
THE INDEPENDENT VOICE OF EUROPEAN PRIVATE EQUITY

Capstone PARTNERS

# OPENS LONDON OFFICE



# BrexIN!

## THE TIME IS NOW

Capstone Partners is a leading independent placement agent focused on raising capital for private equity, credit, real assets and infrastructure firms. The Capstone team includes 35 experienced professionals in North America, Europe and Asia that have advised over 75 clients from first time funds to repeat managers

Capstone Partners

# Why clients chose Capstone Partners

### KNOWLEDGEABLE

75 FUNDS RAISED

### GLOBAL

5 OFFICES IN US, EUROPE AND ASIA

### STABLE

11 YEARS AVERAGE TENURE OF TEAM

### EXPERIENCE

$15BN RAISED WITH OUR CLIENTS IN THE LAST 5 YEARS

### PARTNERSHIP

75% OF CLIENTS COME BACK

### RELIABLE

0 FAILED FUNDRAISES

### SUCCESS

75% OF OUR MANDATES HAVE HIT HARD CAP

### TRANSPARENCY

100% LP INTERACTIONS VISIBLE VIA CLIENT PORTAL

## Full Suite of Primary, Secondary Fundraising and IR Solutions

### PRIMARY SOLUTIONS

- Fundraise positioning & strategy development
- Fundraise structuring and terms negotiations
- Due Diligence preparation and coordination
- Compelling documentation crafting
- Process management to close

### SECONDARY SOLUTIONS

- Staple transactions
- Fund restructuring solutions
- GP spin-outs
- LP liquidity-events
- Aged primaries

### INVESTOR RELATIONS SOLUTIONS

- Pre-marketing strategies
- Ongoing investor relationship building
- Investor comnunications (newsletters, press releases,presentations)
- Market soundings and LP perception studies
- New Product development

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Q&A

# LOUIS DE SAINT-MARCQ & LUCIEN CIPOLLONE

## Capstone Partners

*Capstone's Managing Partner Louis de Saint-Marcq and Associate Partner Lucien Cipollone discuss the firm's reasons for launching in London post-Brexit, why it takes emerging managers longer to reach a first close and the balance of power in the fundraising market.*

**By** *Darragh Riordan*

### You have just opened your first London office. Why now?

**de Saint-Marcq:** There are several reasons. Firstly, in the current market environment where uncertainty looms, it makes sense to be even closer to our LP and GP clients. We see the value in strengthening our existing relationships and building more relationships, and in being closer to those who need our help in raising capital – that's why we are doing a BrexIn. Opening the London office is just the latest step in the development of our firm, adding to the offices we already have in Dallas, Geneva, Singapore and New York.

Secondly, we actually see signs of increased activity in the UK private equity market, as new entrants create a base here to capitalise on the opportunities generated by the UK leaving the EU. Despite popular opinion, we don't see a mass of already established managers relocating elsewhere.

Thirdly, because we had the chance to recruit Lucien, a professional with close to 15 years' fundraising experience, we wanted to leverage his knowledge and relationships in the UK market.

### Does the UK market for placement agents differ to markets elsewhere?

**Cipollone:** In the private markets space we operate in, approximately two fifths of European LPs and GPs are based in the UK. Historically, that meant that local fund managers had a relatively easier time raising capital, as a disproportionate amount of capital was available domestically. With Brexit comes an increase in unpredictability.

Since 2016, there has been a significant increase of UK-based managers, both established and emerging, whose fundraisings have been materially prolonged, paused or aborted as investors decide how much UK exposure they now want in their portfolio. 2018 is fast becoming a test year because there are a number of blue-chip groups already in, or preparing to come to market. They soon will find out how their propositions to LPs fare in the run up to March 2019, when the UK officially leaves the EU.

We see many groups, that five years ago would have managed their fundraisings without an agent, move towards hiring an agent. In these current conditions, an agent will help ensure the funds close on target and within a reasonable timeframe. Additionally, we believe Brexit will further accelerate the formation of spin-out/emerging fundraises for which we have a significant expertise. In the last five years we worked with eight managers to raise their first institutional fund. Thanks to our relationships with investors globally and knowledge of their programmes, we match supply and demand and ensure seamless raises for our GP clients.

### Are emerging manager funds finding things relatively easy?

**de Saint-Marcq:** There are two types of emerging managers, first-time funds and first-time teams. They are very different to each other. Most LPs and even placement agents will avoid backing a first-time fund or manager unless the team has worked together in the past. We have been able to successfully raise both types. In fact, we are proud to say we have a 100 per cent success rate raising first time teams. The road to first close is usually longer, however, due to our depth and breadth of LP relationships, we know which investors have the conviction to back a first-time team. We have also successfully supported many spin-out fundraisings, often with a first and final close, in some occasions from start to finish within three months.

### How would you describe the balance of power in the fundraising market?

**de Saint-Marcq:** The good fund managers are oversubscribed. They are driving the timeline and the terms in a way that they would not have been able to in the past. We have seen some managers even remove the hurdle rate completely, although there is a clear push from LPs and in our view a mutual benefit for all, to keep them in place in some form.

LPs are also scrutinising their re-ups like never before. Pre-global financial crisis (GFC), so long as there were no major issues with their existing managers, LPs would more often than not rubber stamp a re-up.

But now all commitments, as much as to existing managers as to new managers, are diligenced in the same way. Investors are much more willing to discontinue an underperforming relationship.

**Cipollone:** Immediately post GFC many groups were offering management fee discounts for first closes. This happens much more seldom nowadays.

Conversely, there are more and more managers that demand, and obtain, enhanced economics – higher carry over a certain threshold or, in some cases, US-style waterfalls. That being said, 90 per cent of the funds we see in the market have standard terms of two-and-twenty and eight per cent hurdle. Buyout funds that raise more than €750m have slightly reduced the blended management fee they charge.

### How much of your time is now dedicated to fund restructurings?

**de Saint-Marcq:** It is an increasing component of our role as an agent. As we interact with GPs over time, we try to understand their current challenges and how we may be able to assist them best.

Historically, this has been around primary or staple fundraisings. Yet these options may not be suitable for every firm, especially if they are still managing funds that pre-date the GFC, have an evolution in their LP base, or where portfolio companies require additional capital. In these cases a more bespoke solution (and advice) is called for.

> **Since 2016, there has been an increase of UK managers, whose fundraisings have been prolonged, paused or aborted**

**Cipollone:** On the supply side, fund restructurings have become more sought after, as they provide secondary fund managers with deal opportunities that diversify their portfolio and boost their overall investment returns. This is because the weight of capital chasing a single or a portfolio of LP stakes has driven pricing to well above NAV (15 per cent above in some cases).

This is not to say that all attempted restructurings succeed. We often see cases where the erstwhile vendor LPs don't want to sell, because of the high quality of the underlying portfolio and high tangibility of exits.

Inherently restructurings bring forth conflicts and a good fund restructuring balances the interests of all stakeholders equally. This is where a third party, like Capstone, plays a valuable and crucial role in the process. ●

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**Contact us:** *www.csplp.com*

CapstonePartners

# 12 happy clients have come back to us in the last 4 years

**$1.7b**
ATLAS | HOLDINGS
Atlas Capital Resources III
Control investments in distressed opportunities
2018

**€903m**
alpha
Alpha Private Equity Fund 7
Mid-market buyouts in Continental Europe
2017

**$625m**
PLATTE RIVER EQUITY
Platte River Equity IV, L.P.
A Partner for Lower Middle Market Industrial Companies
2017

**$537m**
RUBICON technology partners
RUBICON Technology Partners II
Buyout investments inenterprise software companies
2017

**$457m**
L
L Real Estate II
Global mixed-use luxury real estate
2016

**$337m**
CENTRE LANE PARTNERS
Centre Lane Partners IV
Investments in special situations in the lower middle market
2016

**€350m**
N
Northzone VIII
European venture capital investments
2016

**€1.25b**
F2i
Fondi Italiani per le Infrastrutture II
Value infrastructure in Italy
2015

**£250m**
Elysian Capital
Elysian Capital
Buyout investments in the UK lower middle market
2015

**€900m**
TRILANTIC CAPITAL PARTNERS EUROPE
Trilantic V Europe
Pan-European mid-market private equity
2015

**$650m**
TAILWATER CAPITAL
Tailwater Energy Fund II
Midstream sector investments in the oil and gas industry
2014

**€695m**
euromezzanine
Euromezzanine 7
Middle market mezzanine investments in France
2014

Securities placed through CSP Securities, LP
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Authorised by FINMA
CMS license holder from the MAS
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